STATE OF CONNECTICUT
OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT
06106-1775

Kevin Lembo
State Comptroller

Martha Carlson
Deputy Comptroller

Testimony of Kevin Lembo Comptroller

Concerning SB 1059 AA Implementing the Recommendations of the Commission on Enhancing Agency Outcomes, Sections 283-293 February 28, 2011

Senator Slossberg, Representative Morin, Senator McLachlan, Representative Hwang and members of the Committee, I am State Comptroller Kevin Lembo. I would first like to acknowledge Senator Slossberg, former State Representative James Spallone as well as the GAE Committee and entire Commission on Enhancing Agency Outcomes (CEAO) for developing this comprehensive package of recommendations on streamlining government functions and achieving cost savings.

With respect to the specific portions of the CEAO report's recommendations being addressed today, I support Sections of 289-293 of Senate Bill 1059, which seek to authorize the Office of the State Comptroller (OSC) to procure prescription drugs for the Connecticut Medical Assistance Programs (Medicaid, HUSKY, ConnPACE) as well as Charter Oak.

By my office's calculations, this proposal is estimated to save $66.5 million per year that will result from volume-related discounts, as well as an additional $10 million per year in administrative cost savings.

Incorporating purchasing for participants of the publicly funded medical assistance programs will permit the OSC to build on its past success in controlling pharmacy costs for state employees and retirees, and more recently, to include municipalities under its purchasing umbrella. Enacting this language will also fulfill the legislature's mandate in Public Act 09-206, which charged the Department of Social Services, in collaboration with other state agencies including the OSC, to develop a plan for "cooperative drug purchasing program" as a means of achieving cost savings.

In contrast to an alternative proposal that seeks simply to permit DSS to mirror the reimbursement rates and dispensing fee paid by the OSC, SB 1059 as well as parallel language in HB 6322 will both harness the purchasing power of a larger group and achieve cost savings through administrative efficiencies. Further, even though reducing the dispensing fee from the $2.90 paid by DSS to the $1.40 paid by the OSC would yield another $13.5 million in annual savings, this proposal protects independent pharmacists by leaving intact the dispensing fee that is currently paid by DSS. Finally, this proposal will be implemented under a contract that resulted from an open and competitive Request for Proposals process.

Joint purchasing is readily achievable with a 90-day lead time. The OSC will purchase prescription drugs through its current pharmacy benefits manager, Caremark. Caremark has demonstrated through experience in nineteen other states that it can meet all of the requirements of the Medicaid program. Joint purchasing will have no impact on DSS' authority to manage the Medicaid program, including, but not limited to, eligibility determinations, terms of participation, use of the preferred drug list, and supplemental rebates. Further, the proposal will not affect the means by which participants access and fill their prescriptions. I want to reassure the committee that the savings is realized on the back-end, not the front-end of pharmacy purchasing.

I urge the Committee to support these sections of SB 1059 because they will achieve significant savings and position the state to achieve further savings with other agencies that also purchase prescription drugs, while safeguarding small pharmacies that would be hurt by a reduction in the dispensing fee.

For your information I have attached a chart that provides a side-by-side comparison of the language in the bill before you, which is also part of House Bill 6322, and the alternative proposal, which is part of Governor's Bill 1013.

Thank you for your consideration. I am happy to answer your questions.

A Comparison of House Bill 6322 and Governor's Bill 1013 Concerning Prescription Drug Savings

Kate McEvoy, Esq., Assistant Comptroller
February 24, 2011

Background:

Public Act 09-206 (the "Act") charged the Commissioners of the Departments of Social Services ("DSS") and Administrative Services and the Office of the State Comptroller ("OSC"), in consultation with the Commissioners of Public Health and Insurance, to implement and maintain a program and procedures to aggregate or negotiate the purchase of prescription drugs for participants of the publicly-funded medical assistance programs with purchase on behalf of state employees and retirees.

Fulfilling this mandate, on October 6, 2010, DSS presented to the Legislature a "Prescription Drug Purchasing Program Report", which offered two alternative means of achieving cost savings:

A. authorizing the Comptroller to amend the OSC's existing contract with Caremark to authorize aggregate purchasing prescription drugs for state employees, retirees, and participants of the publicly-funded prescription drug programs; or

B. directing the Commissioner to reduce reimbursement rates to mirror those utilized by the OSC.

The OSC has endorsed option (a) because it offers the greatest opportunity to achieve not only volume-related cost savings, but also administrative cost savings. Option (b) will not yield administrative cost savings, and can be regarded as anti-competitive.

Comparison of Options (a) and (b)	**Option (a) House Bill 6322 An Act Concerning State Prescription Drug Purchasing**	**Option (b) Governor's Bill 1013, Section 2 An Act Implementing the Governor's Budget Recommendations Concerning Human Services**
Goal	To achieve cost savings in purchase of prescription drugs for participants of the publicly-funded medical assistance programs.	Same.
Summary	Seeks to extend the OSC's existing authority to purchase prescription drugs for state employees and retirees to include recipients of the publicly-funded medical assistance programs.	Seeks to mirror the dispensing fee and drug reimbursement prices paid under the OSC's contract with Caremark.
Estimated Cost Savings	**$66.5 million** annually related to volume-related discounts and **$10 million** per year in administrative cost savings.	**$76 million** in FY'12 and **$80 million** in FY'13.
Method	The OSC will through Caremark negotiate volume-related discounts in the reimbursement cost of prescription drugs. The dispensing fee paid by DSS will remain $2.90 per prescription, and the reimbursement rate will be based on Average Wholesale Price (AWP) less a higher discounting factor than is currently used by DSS. **If the dispensing fee were to be reduced, an additional $13.5 million in savings over the above figures would result.**	DSS will reimburse pharmacies at the same dispensing fee and drug reimbursement rates as are paid through the OSC contract with Caremark. The dispensing fee paid by DSS will be reduced from $2.90 to $1.40 per prescription, and the reimbursement rate will be based on Average Wholesale Price (AWP) less a higher discounting factor than is currently used by DSS.

	Option (a) House Bill 6322 An Act Concerning State Prescription Drug Purchasing	Option (b) Governor's Bill 1013, Section 2 An Act Implementing the Governor's Budget Recommendations Concerning Human Services
Procedural History	Introduced by the Human Services Committee on 2/9/11; subject of public hearing on 2/14/11. **HB 6322 is a stand-alone bill, passage of which could be expedited.** Given the required lead time, passage no later than March 31, 2011 is recommended.	Introduced to the Human Services Committee by Senators Williams and Looney and Representatives Donovan and Sharkey on 2/17/11. **Section 2 is just one part of an extensive bill.**
Time Frame	This initiative will require a 90-day lead time. Cost savings are based on implementation on or before July 1, 2011, and savings will be reduced by $7.5 million per month if implementation is delayed.	Unknown.

Agency Issues and Concerns	Option (a) House Bill 6322 An Act Concerning State Prescription Drug Purchasing	Option (b) Governor's Bill 1013, Section 2 An Act Implementing the Governor's Budget Recommendations Concerning Human Services
Source	**DSS written testimony.**	**OSC.**
Contract-related	**Issue:** Entering into an exclusive contract with Caremark as a sole provider of retail pharmacy appears to violate the Medicaid requirement that DSS enroll "any willing pharmacy provider". **Answer:** The Caremark contract was competitively bid through Request for Proposals (RFP) process and includes an extensive pharmacy network that is both larger than the network maintained by DSS, and has the capacity to serve participants who live out of state. Although it would delay implementation, the contract, which continues through June 30, 2013, could if necessary be re-bid.	Mirroring rates outside of a competitive bid process can be regarded as anti-competitive and may influence Caremark and its competitors to adjust their pricing upon issuance of the next Request for Proposals.
Potential for Cost Savings		Mirroring reimbursement rates will only achieve savings to the DSS programs and will fail to realize the longer-term cost savings to the OSC that are associated with aggregating purchasing. Further, Option (b) is not conducive to reducing costs of other departments/units of the state by aggregating prescription drug purchasing with the OSC. The above-referenced report to the Legislature details the following additional annual expenditures on prescription drugs: • Department of Corrections: $14 million • Department of Children and Families: $850,000 • John Dempsey Hospital/UConn: $14 million • DMHAS: $8 million • Department of Public Health: $9 million

Issues and Concerns	Option (a) House Bill 6322 An Act Concerning State Prescription Drug Purchasing	Option (b) Governor's Bill 1013, Section 2 An Act Implementing the Governor's Budget Recommendations Concerning Human Services
Source	**DSS written testimony.**	**OSC.**
Federal compliance	**Issue:** This means of purchasing drugs, which will use OSC as an "intermediary", will not provide "sufficient direct control over the PBM [Pharmacy Benefits Manager] provider" to ensure compliance with Medicaid requirements. **Answer:** Aggregating purchasing will not affect DSS' administrative authority over any of the terms of participation (e.g. eligibility determination, cost sharing requirements, benefit limits, prior authorization procedures) in the medical assistance programs.	
Administrative	**Issue:** "Claims would have to be processed twice, first by Caremark and then by the Medicaid claims system (HP) with associated costs of duplication." Implementation cannot be accomplished timely because there are multiple parties involved and achieving the required interfaces will be complex. **Answer:** Caremark serves Medicaid programs in 19 other states in which these issues have been resolved. OSC staff has been in active dialogue with both Caremark and DSS about required time frame and a 90-day lead time has been identified as sufficient by Caremark.	
Participant Impact	**Issue: "**Use of mail order service are of concern due to the transient nature of the client population." **Answer:** Participants of the DSS medical assistance programs will not be required to use mail order. Mail order is an optional feature of the state employee and retiree prescription drug plan, and currently only approximately 3% utilize it. Related, participants will be able to continue to fill their prescription drug needs locally and **no other terms of participating in the program** (use of the preferred drug list, emergency fills, appeals) **will change**.	
Provider Impact	**Issue:** "It is not clear whether this proposal would eliminate access to 340B pharmacies and their associated savings." **Answer:** This initiative relates only to the purchase of prescription drugs through DSS programs that are dispensed to participants by retail pharmacies. Entities that have qualified for 340B, such as John Dempsey Hospital and the federally qualified health centers, will continue to be able to purchase drugs as they do today.	Under this proposal, the dispensing fee paid by DSS will be reduced from $2.90 to $1.40 per prescription. In testimony, pharmacies have asserted that reducing the dispensing fee will mean loss of jobs and closure of pharmacies.